

Message Text

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C O N F I D E N T I A L MANILA 18593

E.O. 11652: GDS

TAGS: EPAP, RP

SUBJECT: RONNIS VELASCO GOES AFTER THE TIRE INDUSTRY

REF: A. CHENEY/PALMER MEMCON, 8/30/76

B. MANILA 14462

1. SUMMARY. THWARTED IN HIS DESIRE FOR A 40 PERCENT EQUITY IN GOODYEAR PHILIPPINES, RONNIE VELASCO IS NOW ON A CAMPAIGN TO SOFTEN UP THE TIRE INDUSTRY BY INCREASING IMPORTS OF FINISHED TIRES IN DIRECT COMPETITION AND BY SEEKING A DECREASE IN THE IMPORT DUTIES SO AS TO IMPROVE PETRON TBA'S PROFIT MARGINS.

2. THE GOP-OWNED PHILIPPINE NATIONAL OIL COMPANY (PNOC) HAS MADE NO SECRET OF ITS DESIRE TO BUY INTO THE GOODYEAR TIRE AND RUBBER COMPANY OF THE PHILIPPINES. THE OTHER TWO TIRE MANUFACTURERS, FIRESTONE AND B.F. GOODRICH, ALREADY HAVE SUBSTANTIAL FILIPINO EQUITY, 25 AND 46 PERCENT RESPECTIVELY, WITH GOODRICH HAVING OVER 1,500 STOCKHOLDERS. PNOC'S OFFER TO PURCHASE 40 PERCENT OF GOODYEAR AT SIX TIME NET EARNINGS (ABOUT \$10 MILLION) WAS TURNED DOWN BY AKRON WHICH WAS WILLING TO CONCEDE ONLY 30 PERCENT AT SEVEN TIMES NET EARNINGS (\$11 MILLION PLUS). SEE MEMCON.

3. WHILE NEGOTIATIONS BETWEEN PNOC AND GOODYEAR HAVE BEEN
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SUSPENDED, PNOC HAS EMBARKED ON A CAMPAIGN TO SOFTEN UP

GOODYEAR AND ALSO ENABLE ITS PROFITABLE PETRON TBA (TIRES, BATTERIES AND ACCESSORIES) DIVISION TO OBTAIN A MORE COMPETITIVE EDGE IN THE MARKET WHICH AT PRESENT IS SOFT. THE PRINCIPAL TOOL WAS TO SEEK AUTHORIZATION FOR TIRE IMPORTS AND RECENTLY TO PETITION FOR LOWER TARIFFS (FROM 50 TO 30 PERCENT) ON FINISHED TIRES. TIRE IMPORTS HAVE HURT THE THREE LOCAL MANUFACTURERS, AND IN 1975 SOME \$5 MILLION IN NEW TIRES WERE IMPORTED FROM JAPAN, TAKING 25 PERCENT OF THE MARKET.

4. IN ITS PETITION FOR LOWER TARIFFS WITH THE TARIFF COMMISSION, PETRON TBA HAS HIGHLIGHTED THE FACT THAT THE THREE MANUFACTURERS WERE AVERAGING 16.6 PERCENT RETURN ON SALES AND 17.3 PERCENT RETURN ON EQUITY. PETRON TBA'S STATEMENTS SEEK TO PORTRAY THE MULTINATIONALS AS ENJOYING HUGE PROFITS BEHIND THE PROTECTION OF TARIFF WALLS. NO MENTION IS MADE OF THE FACT THAT THE PRIME RATE RANGES FROM 14 TO 17 PERCENT, AND THE ABOVE RETURNS ARE THE NORM FOR INDUSTRY AS A WHOLE. IN ADDITION, THE LABOR UNIONS HAVE APPEARED BEFORE THE TARIFF COMMISSION TO COMPLAIN ABOUT THE LOSS OF EMPLOYMENT THROUGH TIRE IMPORTS, BUT THEIR TESTIMONY HAS YET TO APPEAR IN THE CONTROLLED PRESS.

5. IN THE MEANTIME, RONNIE VELASCO OF PNOC HAS CARRIED ON HIS PRIVATE FEUD WITH B.F. GOODRICH. EARLIER IN THE SPRING HE HAD RECEIVED A LETTER OF REPRIMAND FROM THE GREEN CAPTAIN OF THE MANILA GOLF CLUB FOR TEEING OUT OF TURN, AND HE HAD BLAMED THIS ON A GOODRICH OFFICER ON THE BOARD. HE VOWED NOT TO BUY ANY GOODRICH PRODUCTS OR PAY THE GOODRICH BILLS. WHEN THE GOODRICH OFFICER POINTED OUT THAT HE WAS OUT OF COUNTRY AT THAT TIME, RONNIE VELASCO BECAME GREATLY INCENSED. HE HAS SINCE PAID THE BILLS AFTER A LONG DELAY, BUT ALL GOODRICH PRODUCTS HAVE BEEN BANISHED FROM PETRON GAS STATIONS.

6. THE TIRE INDUSTRY EMPLOYS A TOTAL OF 4,500 WORKERS AND IS SELF-SUFFICIENT IN NATURAL RUBBER WHICH IS PRODUCED IN PLANTATIONS IN THE SOUTH. IT HAS A PAYROLL OF 33 MILLION PESOS A YEAR AND PAYS A TOTAL OF 140 MILLION TAXES, 60 MILLION IN INCOME TAXES AND 80 MILLION IN IMPORT DUTIES ON RAW MATERIALS. IMPORT TAXES ON RAW MATERIALS ACCOUNT FOR

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20 PERCENT OF THE INDUSTRY'S COST OF PRODUCTION.

7. THE INDUSTRY IS RESIGNED TO THE INEVITABILITY OF LOWER TARIFFS ON FINISHED TIRES AND HIGHER IMPORTS OF FINISHED TIRES. IT IS CONSIDERING ITS OWN PETITION FOR LOWER DUTIES ON RAW MATERIALS. THE THREE COMPANIES ARE CONCERNED THAT PETRON TBA'S CAMPAIGN WILL ERODE THEIR POSITION AND BRING ABOUT A DECAPITALIZATION WHEREBY RONNIE VELASCO COULD

PICK OFF THE WEAKEST COMPANY OR TRY AGAIN AT GOODYEAR.

8. THE WHOLE EPISODE IS AN ANOTHER EXAMPLE OF CHANGING
RULES OR STACKING THE CARDS AGAINST ESTABLISHED INVESTORS.
COMING SO SOON ON THE DECISION AGAINST CALTEX (REFTEL),
IT AGAIN ILLUSTRATES THE WORSENING OF THE INVESTMENT
CLIMATE.
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